

HUD RENTAL ASSISTANCE DEMONSTRATION (RAD) REVISED TO BASE FUNDING LEVELS ON 2012 PRE-OFFSET LEVELS / 95% PRORATION

PHAS SHOULD TAKE A SECOND LOOK

STARTING POINT IS FINANCIAL PRO-FORMA USING HUD'S RAD EXCEL TOOL

By: Jason Casterline, CPA

While we all know RAD is not for everyone, HUD has taken a step that I believe makes it a lot more attractive, and should be seriously considered in light of recent Public Housing / CFP funding concerns, as well as the future funding for these programs. That step is that HUD has decided for now to allow RAD to be funded at the 2012 Pre-Offset (Pre-Recapture) levels of 95%. This could enable PHAs to lock in at the funding from last year, which is a lot better than this year (approx 83%). The big question of course is where Public Housing and CFP funding will go in the future. If one assumes they will continue to decline, this might be a good deal and a one-time opportunity that will disappear soon.

For those unfamiliar, RAD involves converting one or more Public Housing properties to Project-Based Section 8. Two models exist, either (1) Project Based Vouchers where you become a Section 8 Landlord through your HCV program or if you don't have one it would be administered by another PHA, or (2) Project Based Rental Assistance which is funded and regulated under the Multifamily program. So instead of receiving Operating Subsidy and Capital Funding, you would have a Contract Rent that includes a HAP Payment from HUD and the Family Contribution. The caveat (required by Congress) was that the subsidized portion of the Contract Rent, in other words the HAP, would be limited to the current Public Housing funding for the property. So $PH \text{ Subsidy} + CFP = RAD \text{ HAP Funding}$. The property is funded at the same level in terms of dollars as Public Housing, but would be a HAP Payment instead of Subsidy/CFP. There are other advantages including the ability to borrow against the property for immediate capital improvements, rather than waiting for CFP funds spread out over years. Some PHAs have used Low Income Housing Tax Credits to raise equity to supplement the debt.

Concerns were raised this year, even by HUD, about how the low 2013 funding levels including the sequester, would affect the funding for RAD and PHAs willingness to participate. HUD last month put out the information shown on the following page:

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From: RAD [mailto:RAD@HUD.GOV]

Sent: Friday, March 15, 2013 4:35 PM

To: RAD-L@hudlist.hud.gov

Subject: RADblast! FAQs on the Impact of the Potential Full-Year Continuing Resolution and Recently Enacted Sequestration Action

Rental Assistance Demonstration

RADblast!

In response to questions received from PHAs and owners with active RAD applications and awards as well as PHAs that have not yet applied but are considering using RAD to rehabilitate, redevelop, or stabilize their public housing projects, the Department has prepared the following Frequently Asked Questions related to how the potential full-year Continuing Resolution and recently enacted sequestration action impacts RAD conversions. These questions and answers will also be added to the more extensive list of [RAD FAQs](#).

Question: What is the impact of the sequestration and potential full-year Continuing Resolution on RAD overall? More specifically, how will public housing conversions that have already been given initial approval, or are in the application pipeline, or applications being worked on but not yet submitted, be affected? Should interested PHAs and owners continue to submit RAD conversion proposals to the Department?

Answer: While both the anticipated full-year Continuing Resolution (CR) and the recently-enacted sequester will impact HUD's FY 2013 budget across the board, HUD has devised a means to enable PHAs participating in RAD to not have the Sequester and the potential full-year Continuing Resolution adversely impact RAD conversions. Additional details in this FAQ describe how active and prospective public housing conversion proposals can convert at the contract rents established in PIH Notice 2012-32 ("the RAD Notice") and RAD Application and how the prospective FY13 budget and sequester should not adversely affect PBV contracts under the 2nd component of RAD. The Department continues to accept and actively process applications for RAD. We encourage PHAs and owners to consider the advantages of pursuing conversions in this uncertain budget environment. Please do not hesitate to direct further questions to RAD@hud.gov.

Question: For public housing conversions under the 1st component of RAD, how will RAD rent levels be affected by FY 2013 appropriations and sequestration actions?

Answer: Due to uncertainties and anomalies surrounding the FY 2013 appropriations and sequester action described above, HUD is taking the following actions with respect to the establishment of RAD rent levels for Public Housing Authorities (PHAs) that have applied or that will apply to convert assistance for public housing developments under the RAD Notice:

- HUD will continue to honor the rent levels set forth in the RAD Notice and RAD Application for all approved applications, those applications under review, and new applications. Accordingly, the sequestration and the potential full-year Continuing Resolution need not impact the contract rent levels when they are established in a Housing Assistance Payment

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(HAP) contract at closing. Currently, RAD rent levels are based on FY 2012 funding for each indicated project, which constituted the baseline for rent levels used in the RAD Notice, RAD Application materials, the RAD Inventory Assessment Tool, and which were employed in reviewing and approving applications to-date. Accordingly, for approved and new applications, these rent levels will be established in HAP contracts for any conversions that occur in calendar year (CY) 2013. For current or prospective conversions that close in CY 2014, the HAP contract will carry these rents, adjusted by the Operating Cost Adjustment Factor (OCAF).

- In the initial year of conversion of assistance, projects will be funded through the public housing accounts as allowed in the RAD Notice. As a result, only for the initial year of conversion, the PHA can use its available public housing or other funds to make up any gap in rental subsidy for CY 2013 as a result of Operating and Capital Fund allocations to a RAD project or projects that are lower than allocated in FY 2012 and effectively established the baseline in the RAD Application materials. In the CY following conversion, the project(s) will be funded from the Project-Based Rental Assistance (PBRA) account or the Tenant Based Rental Assistance Account (TBRA), relative to the form of Section 8 assistance for the project(s), according to the amount indicated in the HAP contract, including any applicable OCAF, and will be subject to all terms and conditions of the HAP contract.

Question: How will this rent-setting for public housing conversions of assistance actually work in practice this year?

Answer: By way of illustration, Table 1 provides an example of a public housing conversion of assistance under RAD undertaken in CY 2013. In this case, the PHA is converting a 100-unit project with RAD-established contract rents of \$674 with an estimated closing—and hence, conversion—date of October 16, 2013. The Department estimates that, if the final FY 2013 appropriations bill is funded at levels currently indicated in the Continuing Resolution, and if the sequester action is not changed, the PHA's Operating Fund would be reduced 20% and the Capital Fund reduced 5% relative to the amounts available in FY 2012 (see Table 2 for an illustration of the potential aggregated impact). In this example, then, potential FY 2013 appropriations coupled with the current sequestration action could potentially reduce the operating subsidy available to the project by a total of \$74 PUM. Therefore, if the project closed on October 16, 2013, the HAP contract would be effective on November 1, 2013, and the PHA would potentially have a gap of \$14,800 for the remainder of CY 2013 (\$74 PUM x 100 units x 2 months remaining in the Calendar Year), which it may need to address. However, in CY 2014, the project would be funded from the PBRA or TBRA account, as appropriate, at the contract rent of \$674, including any applicable OCAF adjustment. Because the Department set RAD rent levels to fully-enacted FY 2012 funding levels, and included such levels in the RAD Application materials, and the Department does not yet have a finally-determined or enacted appropriation level for FY 2013 and is operating under a Continuing Resolution based on FY 2012 funding levels, it will continue to allow RAD rent levels to be set at the indicated FY 2012 Capital and Operating funding levels, with the Operating Subsidy Allocation Adjustment added back in.

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Table 1: Example of Possible FY 2013 Funding on RAD Contract Rents

Item	RAD Rent Levels in Application Worksheet	Estimated Appropriations Adjustment in 2013	Impact
Operating Fund Subsidy	\$338	20%	(\$67)
Capital Fund Subsidy	\$136	5%	(\$7)
Tenant Rents	<u>\$200</u>		
RAD Contract Rent	\$674		(\$74)

Table 2: Estimated Aggregated Impact of 2013 Appropriations against Funding Assumptions in RAD Application

Item	RAD Application	Estimated 2013 Appropriations if Final Appropriations based on Both Continuing Resolution and Sequester	Estimated Reduction
Operating Fund Subsidy	\$4,712,000,000	\$3,763,900,000	20%
Capital Fund Subsidy	<u>\$1,875,000,000</u>	<u>\$1,781,250,000</u>	5%
Total Subsidy	\$6,587,000,000	\$5,543,150,000	16%

Q: After a public housing project is converted is there a risk that the contract will not be funded in future years, or is there a risk that the rents could be reduced?

Answer: Section 8 PBV and PBRA contracts are subject to the availability of annual appropriations. These contracts will be administered using the contract-determined funding levels and terms and conditions effective for all other project-based rental assistance contracts issued by the Department. The Department is unaware of any previously-issued PBRA or PBV contract that was terminated or had a reduction in rents due to the insufficiency of appropriations. If future appropriations were insufficient, the Department (or, in the case of PBVs, the PHA) may find it necessary to fund a contract for a shorter term until additional funds were made available to meet contractual obligations.

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Q: For 2nd component conversions, where Tenant Protection Voucher (TPV) funds are being converted to PBV contracts, how will the contracts be affected by the FY 2013 appropriations and sequestration actions?

Answer: For Rent Supplement, Rental Assistance Payment, and Section 8 Moderate Rehabilitation conversions (i.e., second component of RAD), the sequestration will not impact the rent levels established under PBV contracts, as PHAs cannot unilaterally cut PBV contract rents to owners. Rents will be set using standard PBV contract calculations.

Q: Under the 2nd component of RAD, is there a risk that a PHA enters into a PBV contract with an owner, but that HUD will not provide a fully funded increment of Tenant Protection Vouchers to the PHAs?

Answer: PBV contracts under the 2nd component are funded from the TPV account. Because new TPV funds are provided to the PHA for each RAD transaction, the budget and sequester will not impede a PHA's ability to enter into a PBV contract. When a RAD transaction is approved, the TPV funding for the PBV contract is added to the PHA's voucher baseline.

Send questions to rad@hud.gov and visit the [RAD website](#) regularly for additional resources. To join the RAD email list, please go [here](#).

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The bottom line is that HUD will allow PHAs, for now at least, to fund the RAD subsidy level at 2012 Public Housing OpSub pre-offset levels (95%) + CFP. I personally think that this beckons another look, even if you previously decided it is not for you. Note that there is now a rolling application period and not all of the units have been spoken for. Talk with other PHAs that are doing it on the first round. I have, and they're pretty excited. I have seen smaller PHAs that are converting all of their Public Housing to RAD and they will no longer have a Public Housing program.

One place you want to start is with the proforma tool HUD put together. I have to admit, it is pretty slick. Every Public Housing AMP is loaded in there, including yours, enabling you to very quickly run the numbers, to do a proforma, and see if it makes sense financially. For the proforma see www.hud.gov/rad (it is near the bottom and titled "RAD Inventory Assessment Tool").

By the way, we can help you through this if you are uncertain where to begin.

One very important consideration, not to be taken lightly, is whether you should do RAD on the PBV path or PBRA. There are significant pros and cons.

Good luck with this and I would love to hear from any PHAs that have reach conclusions, for or against, on this.

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